

Appendix H

Example of Risk/Monitoring Plan

This document provides an example of a tool that links risk factors and monitoring activities.

| IDENTIFIED RISKS | RESPONSE TO IDENTIFIED RISKS |
|--|--|
| Risks associated with <u>CLIENT SERVICE</u> programs: Examples of factors that may be considered in assessing risk include: | Possible Action Steps in a Monitoring Plan |
| Total funding – Does this contract represent a significant portion of the total program funding? | ≠# Assess contractor budget controls. ≠# Monitor remaining available budget when conducting invoice reviews. |
| Complexity – Are program requirements simple or complex? | ≠# If complex, determine whether agency staff and contractor staff maintain sufficient understanding of the rules. ≠# May expand planned technical assistance. |
| Client health and safety – How vulnerable are the clients served by the program? | Include client service quality control monitoring methods into contract. |
| Program history – Is it a new or long established program or service? Have any significant changes occurred? | ≠# If new, determine whether agency staff and contractor staff maintain sufficient understanding of the rules. ≠# May expand planned technical assistance. |
| Responsibility for key decisions – Does the state agency, federal government, or the contractor make decisions about eligibility and amount or type of service to be provided to a client? For federal funds, is the contractor a vendor or subrecipient? | ≠# If subrecipient makes eligibility and/or service level determination for clients, review eligibility system reliability in an early program or fiscal on-site monitoring program. ≠# Pay attention to federal rules regarding subrecipient monitoring and auditing |
| Federal risk assessment – Has the U.S. General Accounting Office and U.S. Office of Management and Budget identified the program as being high risk? | If yes, understand the reasons for the high-risk label and address in monitoring plan. |
| Payment method – What type of payment method is used (e.g., cost reimbursement, fee for service, performance based)? What experience does the state agency have with the method? | Monitoring plan will depend on type of payment method. If agency is new to compensation method, determine how other agencies monitor payments under this type of payment method. |
| Monitoring methods – Are the existing methods of monitoring effective for this program? Do these monitoring methods effectively mitigate the other types of possible risks? | Determine whether additional monitoring actions are necessary. |
| Competition – Are contracts awarded on a competitive basis, which includes detailed evaluations of the service proposal, costs, and contractor qualifications, or are they awarded on a noncompetitive basis? | If not competitively bid, use alternative methods to determine that service quality and price are appropriate. |

| IDENTIFIED RISKS | RESPONSE TO IDENTIFIED RISKS |
|---|--|
| Risks associated with <u>CLIENT SERVICE</u> contractors: Examples of factors that may be considered in assessing risk include: | |
| Total funding that the contractor receives from the agency – Is the amount of funding small or large? Does the contractor have many or few contracts with the state? | Determine whether contract amount is large and whether the contractor has other state contracts. Analyze contractor's fiscal systems to ensure proper accounting of funds. |
| Multiple funding sources – Is the contractor receiving funding from several sources for similar services? Are multiple funding sources involved and to what extent? | Identify other state contracts and program managers. Discuss services with other program managers to determine risk of multiple payments for same or similar services. |
| Collaboration – Has the contractor promoted collaboration on service delivery and contract expectations between itself and all of its funding partners? | If not, determine with other funding partners whether funding is duplicative. |
| Length of time in business – Has the contractor been in business for several years or is it a start-up client service provider? | <p>≠# If new business, obtain resumes of key service providers to documents sufficiency of qualifications.</p> <p>≠# Obtain and review fiscal capacity of contractor.</p> |
| Experience and past performance – Does the contractor have contracts for similar services with other governmental entities? How extensive is the contractor's experience with the state for this type of service? What is their performance history? Have there been changes in key staff? | Document experience and status of key staff. If performance history is poor, determine whether an alternative contractor would be appropriate. If not, plan on additional technical assistance to contractor and more frequent on-site monitoring. |
| Accreditation/licensure – Are contractors subject to accreditation or licensure requirements? | Obtain documentation of requirements prior to contract execution. |
| Financial health and practices – Is the contractor's financial condition good or poor? Does the contractor demonstrate sound financial practices? Is the contractor's financial record keeping system adequate for the number and complexity of funding sources being managed? Does the contractor do business with related parties and, if yes, does this business affect agency funds? | <p>≠# Obtain sufficient financial information to conclude on condition, complexity, etc.</p> <p>≠# May need additional monitoring if financial health is poor.</p> |
| Current and prior audit experience – Has the contractor had weaknesses in internal control over federal or state programs? | <p>≠# If yes, plan on additional technical assistance and more frequent monitoring.</p> <p>≠# Consider additional performance reports when approving invoices.</p> |

| IDENTIFIED RISKS | RESPONSE TO IDENTIFIED RISKS |
|---|--|
| Oversight exercised by funding agencies - Have there been monitoring or other reviews by any funding agency that could indicate the degree of risk? Waivers – Is the contractor proposing to operate under a waiver from customary program and financial management requirements? | Coordinate monitoring plan with other agencies. |
| Board of directors – If the contractor is a nonprofit organization, does the board take an active role in directing the organization, establishing management policies and procedures, and monitoring the organization's financial and programmatic performance? Is the board comprised of individuals who are unrelated? Do employees or ex-employees of the organization serve as board members? | Determine the possible impact of management and policy structure on the contract. |
| Subcontracting – Does the contractor subcontract key activities? Does the contractor have an effective monitoring function to oversee these subcontracts? | Require this information in the competitive bid process or the pre-grant application process. Plan to provide additional technical assistance regarding appropriate monitoring expectations and systems. |
| Organizational changes – Has there been frequent turnover of contractor management, senior accounting staff or key program personnel? Has the contractor taken on any new services within the last 12 months? Has the contractor experienced a recent rapid growth or downsizing? Has the contractor experienced reorganization within the last 12 months? Has the contractor changed major subcontractors recently? | Assess what impact these changes may have on the contract. |
| Management structure – Is the organization centralized or decentralized? How much control does the organization have over decentralized functions? | Determine the possible impact of management and policy structure on the contract. |
| Legal actions – Have any lawsuits been filed against the contractor within the last 12 months? | Determine the program and fiscal implications of pending legal actions. Require reporting of end result in a timely manner. |